REGISTERED No. D. 221

The Gazette of India

EXTRAORDINARY

PART I—Section 1

PUBLISHED BY AUTHORITY

No. 10] NEW DELHI, WEDNESDAY, JANUARY 23, 1957

MINISTRY OF HEAVY INDUSTRIES

RESOLUTION

TARIFFS

New Delhi, the 23rd January 1957

No. 21(4)-TB/56.—By a Resolution dated the 6th August 1955, the Government of India in the Ministry of Commerce and Industry had asked the Tariff Commission to enquire into and recommend the fair *ex*-works and selling prices of the automobiles under indigenous development and to indicate how such prices should be revised as the different phased manufacturing programmes made progress. The Commission has taken the opportunity to make a comprehensive review of the industry since the time of its first report in 1953. It was assisted in its task by an automobile expert from the U.K., whose services were secured by the Government under the Colombo Plan. The Commission submitted its report on the 6th October, 1956.

2. On the main question of automobile prices, the Commission has found that the margins between the current net dealer prices and the *ex*-works costs of the vehicles produced by the approved manufacturers are not unreasonable in the case of any model of car or truck, except diesel trucks produced by Premier Automobiles. The Hindustan Landmaster car is actually being sold at a loss. After a full examination of the problem, the Commission feels that a rigid system of price control is likely to have adverse repercussions on the development of the industry. It has, therefore, recommended that the interests of the consumer can be adequately safeguarded by replacing the present system of price control by a more flexible system under which no maximum prices are fixed, but, subject to a general obligation not to charge excessive prices, the manufacturers are left free to vary prices at their discretion and periodic investigations are held into their costs and profits to ensure that the obligation is actually fulfilled by them. The Commission has also suggested that a careful watch should be maintained over the rates of dividend declared by the manufacturing firms with a view to ensuring that the maximum proportion of their profits is ploughed back into reserves.

3. Government are broadly in agreement with these recommendations. They have decided to leave the automobile manufacturers free to revise their prices from time to time according to changes in costs, subject to the following conditions:—

(a) A month's notice of any variation will be given to Government so that, if the change proposed is *prima facie* unreasonable, Government may intervene in the matter;

(b) The net dealer prices (*i.e.*, the *ex*-factory price charged to the dealer) should not exceed the *ex*-works costs by more than 10 per cent. M/s. Premier Automobiles should reduce the price of their diesel trucks accordingly;

(c) The approved manufacturers will, as recommended by the Commission, maintain their cost data in sufficient detail to enable the costs of production of individual assemblies as of complete vehicles to be easily ascertained.

4. The Commission has further examined the question of dealer's commission, which is an important element in the price paid by the ultimate consumer. The Commission has recommended that the maximum 'mark up' on the *ex*-factory price to cover dealer's commission should be Rs. 1,000 per vehicle, or 10 per cent. of the *ex*-factory price, whichever is less, for passenger cars and jeeps, and Rs. 1,000 per vehicle, or 7½ per cent. of the *ex*-factory price whichever is less, for trucks, buses and other commercial vehicles.

5. Government have received representations from the dealers urging that there should be no reduction in their margins and emphasising the importance of the service facilities, which they have to maintain. After consideration of the matter Government have come to the conclusion that the dealers commission should be fixed at 10 per cent. of the *ex*-factory price for passenger cars and jeeps and 7½ per cent. of the *ex*-factory price for trucks, buses and other commercial vehicles as recommended by the Commission, but without the monetary ceiling of Rs. 1,000 per vehicle.

6. Reviewing the progress made by the industry so far, the Commission has summarised its findings in the following words:—

"Hindustan Motors have made notable progress in regard to the Landmaster car. They are now producing almost all the major components of this car and their dependence on their foreign associates is reduced to the minimum. The company's progress in regard to the Studebaker car and truck is slow. Premier Automobiles have made satisfactory progress in regard to Dodge trucks. They are, however, still depending on imports for the necessary rough finished forgings and castings, which account for a large proportion of the total cost. Their progress in regard to the Dodge car is limited to the engine, which is common to the truck also. No significant progress has been made in regard to Fiat 1100. Standard Motors have made some progress in regard to Standard Vanguard, but Standard 10 is still a largely assembled vehicle. The remaining three units Telco, Ashok-Leyland and Mahindra and Mahindra have not yet completed the first phase of their manufacturing programme. Simpson & Co. have made satisfactory progress in the manufacture of Perkins P-6 engine, but Automobile Products of India, whose

manufacturing programme for Meadows diesel engines was approved in December 1955 have not yet commenced manufacture."

7. The Commission has estimated that the annual demand for motor vehicles is likely to increase by 1960-61 to 40,000 commercial vehicles, 20,000 passenger cars and 5,000 jeep type vehicles, making up a total of 65,000 vehicles. About 70 to 80 per cent. of the demand for commercial vehicles is expected to be for the diesel driven type. The Commission has observed that the number of additional commercial vehicles required for the effective implementation of the Second Five Year Plan would be much higher, provided appropriate steps are taken to remove the various factors hampering the demand for commercial vehicles, in particular, the following:—

(i) inadequate road development and bad conditions of roads;

(ii) heavy and varying rates of taxation of commercial vehicles; and

(iii) restrictions on inter-State movement of commercial vehicles and their permissible laden weights.

For purposes of present planning of capacity, however, the Commission recommends acceptance of the above estimates.

The Government of India agree generally with the Commission's view regarding the growth of demand and trust that, with the amendment of the Motor Vehicles Act, 1939, and the co-operation of the State Governments, the automobile industry will play an increasingly important role in the transport system of the country.

8. As against the estimates of demand set out above, the total production of all types of vehicles has increased from 6,302 in 1953, to 12,146 in 1954, 22,153 in 1955, and over 31,000 in 1956. The Commission has examined at some length the manner in which the automobile industry should develop to meet the country's requirements. It has made the following main recommendations in this connection:—

(a) We should give priority to the manufacture of commercial vehicles rather than passenger cars;

(b) In the case of commercial vehicles, the maximum demand will be for diesel vehicles and, instead of trying to discourage this trend, every effort should be made to meet the demand;

(c) It would be definitely undesirable to introduce any more passenger cars for manufacture in the country;

(d) Additional capacity required for commercial vehicles should be installed in existing units rather than new ones.

These recommendations of the Commission are acceptable in principle to Government and it is proposed to settle the manufacturing programme of each firm with due regard to the views expressed by the Tariff Commission.

9. The Commission has also dealt with the question of tariffs. Government accept the Commission's recommendation that the industry should be given protection for a period of 10 years. The Commission is of the view that, in order that suitable priority is given to the manufacture of essential components like the engine,

transmission and axle, import duties on them should be raised, while those on the less important items should be lowered. Government recognise the force of the point made by the Commission that the existing rates of duty are inadequate for protecting the industry. They feel, however, that a change in tariffs as recommended by the Commission is not particularly necessary at this stage having regard to the fact that the domestic industry is sheltered to a very considerable extent by restrictions on imports. It is Government's intention, and the Tariff Commission also has recommended such a course, that in the grant of import licences for components special weightage should be given to firms, which show the maximum progress in indigenous manufacture, while firms, who lag behind the programmes, which they have given to Government, should be penalised. Government, therefore, propose instead of making any changes in the tariff at this stage to convert the existing revenue duties into protective duties and this will enable them to change the tariffs on these components if at any time such a course appears to be essential, by recourse to the powers under Section 4(1) of the Indian Tariff Act.

10. Apart from the main recommendations discussed above, the Commission has also made a few other suggestions and recommendations for consideration of the Government, such as the introduction of uniformity between civilian and military vehicle specifications, the appointment of Field Officers, etc. The Government are generally in agreement with these recommendations in principle, and action will be taken to implement them in due course as far as possible.

11. The Commission has also made a number of recommendations relating to the automobile industry as such, prominent among which are the following:—

(i) The manufacturers should give warranties to guarantee all the parts fitted into their vehicles, irrespective of the origin of such parts and they should form an association with the special object of ensuring quality production and performance;

(ii) Each manufacturer should set up adequate training and designing facilities;

(iii) Each firm should establish sufficient capacity for manufacture of individual components and should be under an obligation to use indigenous materials within a specified time limit;

(iv) Efforts to advance the programme of manufacture of such essential components as engine, transmission, axles, etc. should be made by the manufacturers and they should endeavour to set up common production facilities.

The attention of the industry is invited to these recommendations for very early implementation.

ORDER

Ordered that a copy of the Resolution be communicated to all concerned and that it be published in the *Gazette of India*.

L. K. JHA, Secy.

PRINTED IN INDIA BY THE GENERAL MANAGER, GOVT. OF INDIA PRESS, NEW DELHI AND PUBLISHED BY THE MANAGER OF PUBLICATIONS, DELHI, 1957